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NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Quarterly Financial Report for the quarter ended June 30, 2013 (unaudited)

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. These statements should be read in conjunction with the Main Estimates and Supplementary Estimates as well as Canada's Economic Action Plan 2012 (Budget 2012). They have been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. Although these statements have not been subject to an external audit or review, NRC attests that they are an accurate and true reflection of the financial position for the period ending June 30, 2013.

This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates (no applicable Supplementary Estimates (A) for 2013-14) as well as with Canada's Economic Action Plan 2012 (Budget 2012).

1.1 NRC Mandate

The National Research Council Canada (NRC) exists under the *National Research Council Act* and is a Departmental corporation named in Schedule II of the Financial Administration Act. The mission of NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act*, NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the Council deems necessary.

Further details on NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates for 2012-13. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

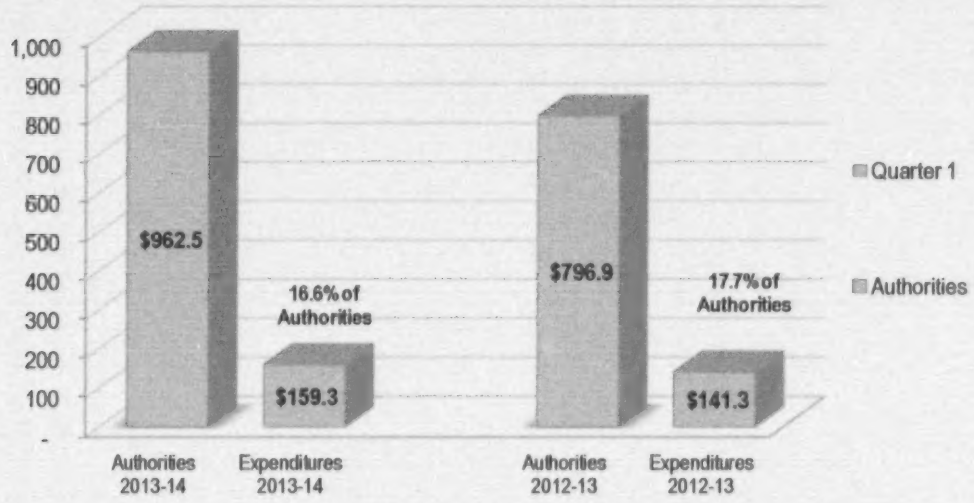
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on June 30, 2013, compared with the previous fiscal year. This section should be read in conjunction with NRC's Statement of Authorities and Departmental Budgetary Expenditures by Standard Object table.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of June 30, 2013, and those as of June 30, 2012.

Comparison of Budgetary Authorities and Expenditures as of June 30, 2013 and June 30, 2012
(in millions of dollars)



As shown in the graph above, NRC's expenditures totalled $159.3M for the first quarter of 2013–14 which represents an increase of $18.0M over the first quarter of 2012-13. Higher expenditures are mainly attributable to the increase of $15.7M in contributions and $1.6M in capital expenditures. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending June 30, 2013, the authorities provided to the NRC include both the *Main Estimates* and Revenue Carry Forward. Please note that for the current year, the NRC has no *Supplementary Estimates (A)*.

As reflected in the *Statement of Authorities*, NRC has seen a total increase in authorities of $165.6M which is an increase of 20.8% over the authorities for the same quarter of the previous fiscal year.

The following table summarizes the variances:

For the year ending March 31, 2014 - As of June 30, 2013
Significant Changes to Authorities *(unaudited)*
(in millions of dollars)

	Vote 60 Operating	Vote 65 Capital	Vote 70 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2013 - As of June 30, 2012						**796.9**
Add :						
Budget 2012 - to double support for companies through IRAP	14.4		93.7		1.9	110.0
Statutory Revenue Carry Forward Increase				46.0		46.0
Statutory Revenue Increase				10.0		10.0
Digital Technologies Adoption Pilot Program (DTAPP	(0.3)		9.8			9.5
Canadian Light Source	3.0					3.0
Canadian HIV Technology Development Program (CHTD)			1.7			1.7
Common Definition of Capital	4.0	(4.0)				-
Other	0.5	(0.2)	0.5	0.2	(0.4)	0.6
Budget 2012 - Planned Reductions in Departmental Savings	(13.4)				(1.8)	(15.2)
Total increase in authorities in comparison to prio	**8.2**	**(4.2)**	**105.7**	**56.2**	**(0.3)**	**165.6**
Authorities – Total available for use for the year ending March 31, 2014 - As of June 30, 2013						**962.5**

The items below explain the variance of $165.6M in authorities. These items were either added to or eliminated from the 2013-14 *Main Estimates*, as compared with the 2012-13 *Main Estimates* and Revenue Carry Forward.

- $110M per year permanent increase in funding as announced in Budget 2012 starting in 2012-13 to double support for companies through the Industrial Research Assistance Program (NRC-IRAP).

- $46.0M increase in statutory revenue attributable to revenues collected but unspent during 2012-13. Pursuant the NRC act, *paragraph 5(1)(e)*, the NRC has authority to carry forward and use unspent prior year revenues.

- $10.0M increase in projected statutory revenue collections for the current fiscal year.

- $9.5M net increase for the Digital Technologies Adoption Pilot Program (DTAPP) of which $8.5M was unspent in 2011-12 and carried forward into 2013-14, offset by a $0.3M reduction in

current year funding. NRC-IRAP spent $52.6M over the last three years ($24.2M in 2012-13) and will receive funding of $37.5M in 2013-14 for this initiative (ending in 2013-14).

- $3.0M increase for the Canadian Light Source (CLS) funding previously reallocated to the Natural Sciences and Engineering Council of Canada (NSERC).

- $1.7M increase for the Canadian HIV Technology Development Program (CHTD) which represents the carry forward of unspent funds from 2011-12. This program is delivered by NRC-IRAP.

- $0.6M increase for various items less than $1M.

- $15.3M decrease as a result of the Planned Reductions in Departmental Spending as announced in Budget 2012.

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with NRC's Departmental Budgetary Expenditures by Standard Object table.

2.3.1 Variances in Year-to-date Expenditures

As of June 30 2013, expenditures were $159.3M, representing an increase of $18.0M (12.7%) in comparison to the 2012-13 expenditures of the same period. The majority of the increase is attributable to increased transfer payments and capital spending.

- Transfer Payment expenditures increased by $15.7M, compared with the previous year. Of this amount, $8.0M is attributable to increased contributions at NRC-IRAP resulting from the permanent increase received in Budget 2012 and $7.1M is related to the timing of contribution payments for TRIUMF.

- Capital expenditures increased by $1.6M over the same period of 2012-13 with the bulk of the increase in two standard objects - Professional & special services increased by $1.1M and Acquisition of machinery & equipment increased by $0.4M. Last year, the transformation of NRC and implementation of a new financial model caused delays in the flow of capital expenditures.

3. Risks and Uncertainties

3.1 NRC Corporate Risks

The key risks identified within NRC's Corporate Risk Profile (CRP) for 2013-14 planning recognized the environmental risk factors related to its transformation, and remain relevant with the developments referenced above. Management capacity to deliver programs for industry uptake and effectively manage the associated changes and impacts continue to be a priority, with attention also on ensuring effective program design. Further work is needed to ensure employees embrace NRC's transformation and stakeholders and clients understand and endorse the changes NRC has made. Enhancing operational efficiencies to respond to clients in a timely manner is another risk to manage, as well as better integration of risk management, emergency management including security, occupational safety and health and business continuity planning to ensure more effective incident management.

Progress has been made in the first quarter of 2013-14 to address CRP risks, including:

- **A transformation roadmap has been developed** to effectively manage and support NRC's changes, identifying the strategies and actions to align people, culture, systems and structures with NRC's Strategy.
- **An integrated client focus and management effort continued** in this quarter. With information on 1,720 clients entered into NRC's new client relationship management system (CRMS) in 12-13, NRC moved to the implementation phase in April 2013 which allowed for the testing of information retrieval, sales forecast and data mining. Information obtained from the CRMS will serve to identify cross-organizational opportunities and consolidate management of external clients. NRC business development staff are now using the system to manage existing client relationships and develop new business opportunities.
- **Financial management training is taking place.** As part of new financial management reporting model, delivery of a training curriculum to both finance and non-finance NRC staff is underway, and is focused on the organization's new financial management reporting model to improve financial competencies in areas of planning, budgeting and forecasting, reporting and costing. Non-financial managers will also receive basic financial management training and coaching through workshops and ongoing business reviews.
- **A new NRC Code of Conduct was released** in June 2013, which in addition to addressing NRC's own corporate risk identified around Values & Ethics, also lines up with the federal government's Values and Ethics Code of the Public Sector which came into force last year. The NRC Code serves as an important touchstone for decision-making, for the policies that frame NRC's work, and for defining obligations of NRC employees as members of the federal government.
- **Weekly employee polling** launched in late 2012-13 continues to take a pulse on employee engagement during the organization's transition, as well as on other topical workplace issues. The internal *Reach* newsletter and "town hall" meetings across NRC are other means to stay connected with staff concerns during the transition. The results are taken into consideration by NRC management for workplace interventions.
- **Establishment of an Emergency Preparedness Working Group and Steering Committee** to respond to the corporate risk around preparedness for incident and crisis management.

Deliverables by the Fall will include a Strategic Emergency Management Plan, a crisis communications plan and governance structure for emergency management.

4. Significant changes in relation to operations, personnel and programs

The changes of the past year at NRC were fundamental to the process of transforming the organization into one that is focused on delivering value for its clients and Canadians and towards a program-based model. A completely new organizational structure was put in place. NRC now has a clear identity as a research and technology organization with four divisions overseeing 12 portfolios. Management positions were redefined and a large number of new hires were completed.

NRC has a total of 47 programs, 27 new programs are in implementation stage. Fourteen others are at the business planning stage, and five are developing business cases and one program is at the concept stage.

In 2013-14, with the fundamentals now in place, the focus of transformation has shifted to refining and consolidating — building understanding of the workings of the new management structure; fine-tuning division and portfolio business strategies and priorities; addressing some of the obstacles to fully integrated Common Services; ensuring that the restructured Business Management Support (BMS) function has the necessary expertise to function effectively; and further training in and use of the SIGMA and SAP-Project System reporting systems, among other things.

Although the process of transformation continues in a holistic integrated way, NRC's people, structure and systems are aligned and primed to support growth in the year ahead.

5. Budgets 2012 and 2013 Implementation

This section provides an overview of the savings measures announced in Budget 2012 and Budget 2013 which are implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

5.1 Budget 2012

Budget 2012 identified savings of $15.2M per year starting in 2013-14 for NRC. These represent cost savings associated with sun-setting certain projects and programs, and through new organizational efficiencies. The remainder of NRC's cost savings were through administrative efficiencies and reductions in overheads.

Also contained in Economic Action Plan (EAP) 2012 was an initiative for supporting entrepreneurs and innovators. In 2012-13, NRC received a permanent annual increase which is being administered by NRC's Industrial Research Assistance Program (IRAP). NRC-IRAP received $91.4M in 2012-13 and will receive $110M annually starting in 2013-14. The research and development funding will be used at all stages of the innovation process to build innovation capacity in small and medium-sized enterprises that create high-value jobs and will be used to expand the services provided to businesses through the program's Industrial Technology Advisors.

5.2 Budget 2013

Although not yet included in the 2013-14 Authorities, EAP 2013 confirmed $121M over two years (ending 2014-15) to support NRC's transformation agenda, and launch its programs to Canadian clients into 2013-14.

To further support the innovation needs of Canadian industry, EAP 2013 also committed $20M over three years to establish a new "research credit note" pilot program, delivered through NRC-IRAP.

Approved by:

John R. McDougall, P.Eng.
President
National Research Council Canada
Ottawa
Date: August 26, 2013

Michel Piché, M.P.A., CMA, CIA
VP, Corporate Management
and Chief Financial Officer
National Research Council Canada
Ottawa
Date: August 26, 2013

National Research Council Canada

Quarterly Financial Report
For the quarter ended June 30, 2013

Statement of Authorities *(unaudited)*

	Fiscal Year 2013-2014 *(in thousands of dollars)*		
	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended June 30, 2013	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	331,887	93,035	93,035
Vote 65 - Capital expenditures	30,776	2,143	2,143
Vote 70 - Grants & contributions	275,109	43,185	43,185
Statutory revenue **	284,539	10,900	10,900
Statutory EBP	40,238	10,059	10,059
Total Budgetary authorities	**962,548**	**159,322**	**159,322**

	Fiscal Year 2012-2013 *(in thousands of dollars)*		
	Total available for use for the year ending March 31, 2013 ***	Used during the quarter ended June 30, 2012	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	323,633	92,929	92,929
Vote 65 - Capital expenditures	34,949	534	534
Vote 70 - Grants & contributions	169,416	27,447	27,447
Statutory revenue **	228,367	10,283	10,283
Statutory EBP	40,514	10,128	10,128
Total Budgetary authorities	**796,879**	**141,321**	**141,321**

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act.*

**** Includes only Authorities available for use and granted by Parliament at quarter end. Total available for use does not reflect measures announced in Budget 2013.*

National Research Council Canada

For the quarter ended June 30, 2013

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2013-2014 *(in thousands of dollars)*		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended June 30, 2013	Year to date used at quarter-end
Expenditures:			
Personnel	390,196	94,727	94,727
Transportation & communications	33,801	2,414	2,414
Information	5,056	312	312
Professional & special services	61,296	6,541	6,541
Rentals	12,411	1,126	1,126
Repair & maintenance	32,939	2,988	2,988
Utilities, materials & supplies	124,403	4,593	4,593
Acquisition of machinery & equipment	9,928	409	409
Transfer payments	275,109	43,185	43,185
Other subsidies & payments	17,409	3,027	3,027
Total net budgetary expenditures	**962,548**	**159,322**	**159,322**

	Fiscal Year 2012-2013 *(in thousands of dollars)*		
	Planned expenditures for the year ending March 31, 2013	Expended during the quarter ended June 30, 2012	Year to date used at quarter-end
Expenditures:			
Personnel	313,141	94,963	94,963
Transportation & communications	30,200	2,432	2,432
Information	9,144	559	559
Professional & special services	67,106	4,630	4,630
Rentals	6,421	778	778
Repair & maintenance	26,967	1,656	1,656
Utilities, materials & supplies	114,546	7,069	7,069
Acquisition of machinery & equipment	50,550	28	28
Transfer payments	169,416	27,447	27,447
Other subsidies & payments	9,388	1,759	1,759
Total net budgetary expenditures	**796,879**	**141,321**	**141,321**

** Planned expenditures do not reflect measures announced in Budget 2013.*